

**Division of Health Planning and  
Resource Development  
August 2006**

**CON Review: ASC-A-0606-015**

**Madison Ambulatory Surgery Center, LLC, Madison  
Amendment/Additional Capital Expenditure on CON No. R-0542**

**Establishment of an Ambulatory Surgery Facility**

**Approved Capital Expenditure: \$1,172,575**

**Additional Capital Expenditure: \$2,075,928**

**Revised Capital Expenditure: \$3,248,503**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Madison Ambulatory Surgery Center, LLC (MASC) is a Mississippi Limited Liability Company. The members of Madison Ambulatory Surgery Center, LLC are Louis Saddler, M.D., L.C. Tennin, Jr., M.D., Parvesh K. Goel, M.D., Jennifer O. Hicks, M.D., Beverly Ray Love, M.D., David L. Moody, M.D., Wesley F. Prater, M.D., William Truly, Jr., M.D. and Surgis, Inc., a subsidiary of United Surgical Partners International.

**B. Project Background**

Certificate of Need No. R-0542 was issued to Progressive Family Services Corporation with an effective date of April 25, 2002, and an expiration date of April 25, 2003. The CON authorized the applicant to construct a 4,380 square foot free-standing multi-specialty surgery center in Canton. The applicant amended its application on December 19, 2002, by transferring ownership to Madison Ambulatory Surgery Center, LLC, proposing to construct the surgery center in the new Progressive Family Services Corporation medical office building in Canton.

The applicant submits that plans were reviewed by the Division of Licensure and Certification on October 14, 2004, and the project is nearing 80 percent completion. The applicant further states that extreme escalation in the local construction markets and related medical equipment have resulted in final anticipated costs which exceed the original CON authorized capital expenditure of \$1,172,575.

On April 26, 2005, Madison Ambulatory Surgery Center, LLC, submitted documents showing good faith toward completion of the project. On June 27, 2005, a certificate of “good faith effort” was granted for CON No. R-0542.

**C. Project Description**

Madison Ambulatory Surgery Center, LLC, is requesting an amendment/cost overrun on CON No. R-0542 which will increase the capital expenditure from \$1,172,575 to \$3,248,503, a 177% increase. According to the applicant, when the original plans and specifications were prepared in 2001, Madison Ambulatory Surgery Center was designed as a Single Specialty Center to provide minor surgical services performed by family physicians to the community with a non-fixed equipment budget of \$143,570. In the interim, several sub-specialty groups, such as Anesthesia, Gastroenterology, General Surgery, Gynecology, Urology, Orthopedic and Pain Management, became affiliated with the surgery center. According to the applicant, the addition of the sub-specialty groups caused increases in the originally proposed square footage by 4,270 square feet and non-fixed equipment by approximately \$675,000.

According to the applicant, University Orthopaedic Associates, LLC, (the University of Mississippi Medical Center Orthopedics Department) committed to performing out-patient surgery in the Ambulatory Surgery Center; therefore, cost for non-fixed equipment increased the budget by approximately \$100,000.

The additional square footage contains two minor procedure rooms and an expanded recovery area. According to the applicant, the specialty physicians’ use of the new square footage increased the non-fixed equipment budget by approximately \$200,000.

Listed below are the departments and the non-fixed equipment associated:

<b>Non-Fixed Equipment</b>	
Anesthesia	\$ 23,460
Gastroenterology	\$195,200
General Surgery	\$ 31,150
Gynecology	\$ 44,200
Orthopedic Surgery	\$102,210
Pain Management	\$142,000
Miscellaneous	\$123,925
<b>Furniture</b>	\$ 46,285
<b>IT – Computer/Phones</b>	<u>\$110,000</u>
<b>TOTAL</b>	<u>\$818,430</u>

Madison Ambulatory Surgery Center, LLC, submits that 20% of the Cost Overrun , approximately \$400,000, is related to compliance with the 2003 changes to the NFPA Life Safety Code as regulated by the Division of Licensure and Certification.

## II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendments and cost overruns in accordance with duly adopted procedures and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on September 5, 2006.

## III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

### A. State Health Plan (SHP)

The original application was in substantial compliance with the applicable criteria and standards in the 2002 *State Health Plan*. This amendment/additional capital expenditure project is a change in scope of the original project but does not change the overall objective of the project.

**B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*, addresses general criteria by which all applications for Certificate of Need are reviewed. This project was in substantial compliance with general review criteria at the time of original submission, and continues to be in substantial compliance with said criteria.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

**CAPITAL EXPENDITURE SUMMARY  
 MADISON AMBULATORY SURGERY CENTER, LLC  
 AMBULATORY SURGERY CENTER**

	<b>Original Approved Amount</b>	<b>Revised Amount</b>	<b>Increase or (Decrease)</b>
New Construction	\$648,240	\$1,875,637	\$1,227,397
Construction/Renovation	N/A		
Land	N/A		
Site Work	N/A		
Fixed Equipment	\$272,325	\$327,230	\$54,905
Non-Fixed Equipment	\$143,570	\$818,430	\$674,860
Contingency	\$53,206	\$53,206	\$0.00
Fees (Architectural, Consultant, etc)	\$55,234	\$174,000	\$118,766
Capitalized Interest	N/A		
Capital Improvement	N/A	-	-
<b>Total Capital Expenditure</b>	<b><u>\$1,172,575</u></b>	<b><u>\$3,248,503</u></b>	<b><u>\$2,075,928</u></b>

Square Footage	4,380	8,650	4,270
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The proposed ambulatory surgery facility will consist of 8,650 square feet of new construction at approximately \$281 per square foot. The *Means Construction Cost Data* does not compare construction cost for freestanding ambulatory surgery facilities.

**B. Method of Financing**

The applicant states that up to \$2,060,000 of the project will be financed by CIT Healthcare and the remaining capital expenditures associated with this project will be funded by the company.

**C. Effect on Operating Cost**

The applicant projects the following expenses, revenues, utilization, and net income during the first year of operation upon completion of the proposed project:

**REVISED PROJECTED OPERATING STATEMENT  
 Madison Ambulatory Surgery Center, LLC  
 Ambulatory Surgery Center**

	<b>First Year</b>
<b>Net Revenue</b>	<b><u>\$2,494,917</u></b>
<b>Expenses:</b>	
Salary and Benefit Cost	946,315
Supply Cost	440,135
Other Cost	<u>984,535</u>
<b>Total</b>	<b><u>\$2,370,985</u></b>
<b>Net Income</b>	<b><u>\$ 123,932</u></b>

**D. Cost to Medicaid/Medicare**

The impact of the project on third party payors is as follows:

<b>Payor Mix</b>	<b>Utilization %</b>	<b>1<sup>st</sup> Year Cost</b>
Medicare	55	\$1,304,042
Medicaid	24	569,036
Blue Cross/ Blue Shield	10	237,099
Other	8	189,679
Self Pay	3	71,129
<b>Total</b>	<b>100</b>	<b>\$2,370,985</b>

The applicant's original application projected three percent care to bad debt patients, one percent to medically indigent patients, and one percent to charity care patients.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this cost overrun for comments. No written comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

The project was in substantial compliance with the overall objectives as contained in the *FY 2002 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual (May 13, 2000, as amended)*; and all adopted rules, procedures and plans of the Mississippi Department of Health. The project is a change in scope from the original project, but does not change the overall objectives of the project.

The Division of Health Planning and Resource Development recommends approval of this amendment/cost overrun of CON No. R-0542, submitted on behalf of Madison Surgery Center, LLC, for the establishment of a freestanding ambulatory surgery center.